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Yen's Downward Drift Complicates Japanese Monetary Policy

For more than six months many of those who make a living following the actions of the Bank of Japan confidently have predicted that Japan's central bank would ease monetary policy within days or weeks. As the weeks have stretched into months and neither the looser monetary policy nor, by extension, the lower interest rates have materialized, these experts have sought solace in a string of extenuating circumstances. At first, there was the explanation that BOJ needed time to assess the effects of the last hike, August 30, 1990, in the central discount rate. Then, they found explanations in the special problem of high oil prices and the associated threat of inflation. Most recently came the suggestion that a plunge toward looser monetary policy could follow the release of BOJ's new quarterly short-term economic survey (tankan), which reflects conditions in May and is released in early June. As of mid-June, however, BOJ officials have had almost 10 months to analyze the effects of the last discount rate hike, oil prices have settled back down and the latest tankan is in the hands of news reporters and number crunchers. Yet the BOJ watch continues, with no clear move to date toward an easing of monetary policy.

investment is neither good nor bad, he believes that competitors in the Far East see investing in a "small cash-strapped U.S. company" as a way to invest in leading technology. His colleague, Linda Spencer, outlined the results of an ESI study on foreign acquisitions in the United States. Among ESI's findings was that Japanese companies were responsible for more than half of the foreign investments in U.S. high technology firms in the last two-and-a-half years. The study was released in mid-May in conjunction with a bill introduced by Reps. Mel Levine (D, Calif.) and Frank Wolf (R, Va.). The Levine-Wolf measure also would tighten the review process for foreign acquisitions; the bill, another attempt to amend Exon-Florio, makes economic security an explicit criteria in assessing the impact of such purchases.

The panel heard several arguments against the Collins bill. Christopher Wall, a partner in the New York law firm of Winthrop, Stimson, Putnam and Roberts, which has represented companies involved in many of the national security reviews conducted by CFIUS, said the measure would "intensify uncertainty and unease in the foreign investment community" and would invite retaliation against American firms in other countries. Stephen Cooney, director of international investment and finance with the National Association of Manufacturers, voiced NAM's opposition to the bill, saying that "a complicated and mandatory review process would be damaging" both to "U.S. companies seeking access to foreign markets and to those seeking partnerships with foreign-owned companies."

Lending his support to a strengthened review process was Peter Mills, the former chief administrative officer of SEMATECH, the government-industry research and development alliance aimed at boosting U.S. semiconductor manufacturing technologies. Mr. Mills stressed that U.S. national security is being jeopardized by numerous foreign purchases of companies with key technologies and that "CFIUS should be required to consider the cumulative effect of multiple transactions." He argued that Japan has a very well thought-out strategy to target the semiconductor industry and its supplier base, although, he added, SEMATECH is not necessarily fighting an unwinnable battle. Andrew Lorenz, chief executive officer of Plasma Chem Inc., also cautioned that the sale to foreign competitors of companies making semiconductor manufacturing equipment and materials jeopardizes "the ability of the United States to compete, domestically and globally, in technological 'anything.'"

The subcommittee is expected to weigh the language of and consider possible amendments to the Technology Preservation Act before long. Although the threat of a presidential veto is likely to be a factor as lawmakers review this particular bill, congressional concern that the United States is losing control over critical technologies appears to be gaining momentum. In addition to the Collins and Levine-Wolf measures, a bill introduced by Rep. Ralph Regula (R, Ohio) in late May would establish a Critical Technologies Commission to determine whether certain imports and foreign investments pose a threat to national security.

Margo Grimm

Big Three Charge Japanese Rivals With Dumping Minivans

Detroit's high-profile Washington campaign for trade and regulatory relief took an unexpected turn May 31 when General Motors Corp., Ford Motor Co.

and Chrysler Corp. formally accused Japanese manufacturers of selling minivans here for less than at home. Rumors had been circulating for some time that one or perhaps all of the Big Three automotive makers would bring an antidumping case against Japanese suppliers; depending on the source of the rumor, luxury cars, compact pickup trucks, small sports-utility vehicles or minivans were said to be the most likely target. But many trade and industry analysts interpreted this talk as just a new tactic in the drive spearheaded by Chrysler chairman Lee Iacocca to get Japanese producers to ease up on car exports (see JEI Report No. 13B, April 5, 1991). Secretary of Commerce Robert Mosbacher's early April statement in Tokyo that the Bush administration would enforce U.S. antidumping laws with regard to the pricing of Japanese-made cars was viewed the same way.

Analysts had several reasons for thinking that the latest round of talk about dumping was designed to scare Japanese competitors into restraining shipments across-the-board. Even if an antidumping petition were filed and the Department of Commerce found less-than-fair-value sales by one or more Japanese makers in the product segment targeted, domestic manufacturers would have a hard time convincing the International Trade Commission that unfair pricing was a major cause of the U.S. industry's problems in that part of the market. The difficulty of establishing a credible causal link was one reason the Motor Vehicle Manufacturers Association never filed the antidumping complaint against Japanese-made compact pickups that it had commissioned in early 1988 (see JEI Report No. 15B, April 15, 1988). Admittedly, U.S. market conditions have flip-flopped in the intervening three years but, according to this line of thought, Detroit still would have trouble proving that the actions of foreign competitors were a significant cause of the Big Three's current woes.

The multiple financial and/or production ties between the American and the Japanese automotive industries also would make Detroit think twice about going the trade-complaint route, analysts figured, no matter what suspicions there might be that Japanese motor vehicle manufacturers still have not raised their U.S. prices enough to cover the dollar's drop against the yen in the second half of the 1980s. Struggling Chrysler not only has a 12.5 percent equity interest in Mitsubishi Motors Corp. but is dependent on its Japanese affiliate for certain car and truck products. It also is negotiating with MMC to take a bigger financial stake in their now equally owned Illinois car plant. Likewise, Ford owns 25 percent of Mazda Motor Corp., which supplies the number-two car maker with the Probe from its Michigan plant and helped Ford redesign the Escort. Ford, in turn, builds the Navajo sports-utility vehicle for Mazda. Next year it will start building a minivan designed by Nissan Motor Co., Ltd. for U.S. sale by both companies. For its part General Motors has minority interests in both Isuzu Motors Ltd. and Suzuki Motor Co., Ltd. The U.S. industry leader also splits ownership of a sports-utility plant in Canada with Suzuki and a car plant in California with Toyota Motor Corp.

Trade and industry analysts also were skeptical whether all three U.S. automotive makers would sign off on an antidumping complaint, an industry first regarded as necessary to improve the poor odds of a successful case. (The lone motor vehicle antidumping case to date, an unsuccessful 1975 complaint against cars made in Europe, Canada and Japan, was initiated by a congressman with the support of the United Auto Workers union. The only other trade complaints involving motor vehicles, two failed 1980 investigations covering cars and light trucks from all countries, were filed by the UAW and Ford.) Chrysler certainly would be no problem. Ford also was thought likely to join in. The big question

was GM, which not only has steered clear of the anti-Japan statements made by Chrysler and, to a lesser extent, Ford but has backed free trade as well.

Detroit's decision to file an antidumping complaint against Japanese exporters was not the only surprise in store for a cross section of trade and industry watchers. A number of analysts also were surprised by the choice of a truck product and especially minivans. GM, Ford and Chrysler are much stronger in light trucks than cars. Last year, for example, American nameplates took 83.6 percent of the 4.6-million-unit U.S. light-truck market versus 65.8 percent of the 9.3 million cars sold here. The Big Three have about 40 percent of the light-truck market to themselves since Japanese manufacturers do not compete in the full-size pickup, van and sports-utility vehicle segments. U.S. companies also have successfully fought back in the big market for compact pickups, which was pioneered by their Japanese rivals; in 1990 American nameplates captured 57.6 percent of sales. They have done even better in small sports-utility vehicles, controlling 75.3 percent of the market last year. The best showing by GM, Ford and Chrysler in compact trucks, however, has been in minivans, a segment carved out by Chrysler in 1983 (see Table).

U.S. Sales of Minivans, 1988-91*

(in units)

	1988	1989	1990	Five Months 1990	Five Months 1991
Plymouth Voyager	192,273	184,943	171,527	78,723	68,901
Dodge Caravan	210,918	206,426	195,276	89,029	83,938
Dodge Caravan C/V	19,222	13,150	10,680	6,311	4,649
Chrysler Town & Country	0	1,812	2,891	1,320	1,580
Ford Aerostar	184,578	188,130	177,860	78,701	60,067
Chevrolet Astro	156,833	143,941	121,168	55,838	46,716
Chevrolet Lumina APV	0	9,776	63,141	25,920	19,872
Pontiac Trans Sport	0	3,226	29,875	12,722	8,551
Oldsmobile Silhouette	0	2,122	26,075	9,069	10,838
GMC Safari	33,168	31,681	34,300	13,877	13,203
American Nameplates	796,992	785,207	832,793	371,510	318,315
Mazda MPV	n.a.	32,277	43,147	15,831	21,010
Mitsubishi Van	n.a.	910	739	398	54
Nissan Axxess and Van	n.a.	13,185	7,877	3,686	290
Toyota Previa and Van	n.a.	10,075	42,431	12,433	21,883
Japanese Nameplates	n.a.	56,447	94,194	32,348	43,237
VW Vanogan	n.a.	5,147	6,643	2,929	2,347
Total Sales	818,741	846,801	933,630	406,787	363,899
American Market Share	97.3%	92.7%	89.2%	91.3%	87.5%
Japanese Market Share	n.a.	6.7%	10.1%	8.0%	11.9%

*The figures for Japanese nameplates do not agree with those used in the Big Three's antidumping petition.

Source: Automotive News

U.S. industry sources cite two reasons for Detroit's unexpected choice of minivans. Although the Big Three reportedly thought they had a good chance of winning a case against Japanese manufacturers in any of the three compact truck segments, minivans provided the best case -- in part, apparently, because the dumping margins on these products were bigger than for pickups and sports-utility vehicles. In its petition the U.S. industry estimates the difference in ex-factory prices for Toyota Previas sold in the United States and in Japan at 5.4 percent to 30.5 percent; similar calculations for Mazda's MPV produce a range of 14.8 percent and 27 percent. If anything, the Big Three add, these figures err on the side of conservatism. (Mitsubishi and Nissan also are mentioned in the complaint but only because they shipped some minivan-like vehicles to this country during the period examined.)

More importantly perhaps, the U.S. industry opted for minivans because these products are one of the few continuing sources of profits in an otherwise bleak financial picture. (Chrysler, admittedly the extreme example, is said to make up to half of its money off of minivans.) But the future profitability of minivans now is in jeopardy because of the U.S. market inroads made by Toyota and Mazda with the help of unfair pricing, the Big Three charge in their petition. GM, Ford and Chrysler acknowledge that the recession has made market conditions difficult, but they blame Toyota and Mazda for compounding their problems. "Precisely because the rise in imports from Japan has coincided with a downturn in the U.S. minivan market, it has aggravated industry problems at a time when U.S. producers are most vulnerable to dumping."

Included in the petition are seven industry indicators that purport to prove that American makers of minivans are in serious trouble because of unfair pricing by Toyota and Mazda, but the evidence of injury is hardly conclusive. Yes, production and sales of American-made minivans are running below last year's levels, but 1990 was a record production/sales year for domestic producers. Similarly, minivan net profits have dropped since 1988, but U.S. light-truck sales also reached an all-time high that year.

GM, Ford and Chrysler actually admit in their petition that they are more concerned about the possibility of injury in the future from dumped minivans made in Japan than about the current impact of unfairly priced Previas and MPVs. That admission is one reason some analysts have labeled the antidumping complaint a preemptive strike -- an attempt to persuade Toyota and Mazda to abandon plans for expanded U.S. minivan sales and, at the same time, to keep other Japanese manufacturers from entering the American minivan market. But formally charging Japanese competitors with dumping to get them to back off is a high-risk strategy. If, as Japanese automotive executives and numerous analysts predict, the U.S. industry loses the minivan case, it no longer will be able to use the threat of an antidumping suit to alter the U.S. marketing plans of Japan's motor vehicle manufacturers in any segment.

Susan MacKnight

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.

Table 1: Japan's Foreign Direct Investment by Country, FY 1986-FY 1990

(in millions of dollars)

	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	Cumulative March 31, 1991
United States	$10,165	$14,704	$21,701	$32,540	$26,128	$130,529
Canada	276	653	626	1,362	1,064	5,656
North America	10,441	15,357	22,328	33,902	27,192	136,185
United Kingdom	984	2,473	3,956	5,239	6,806	22,598
Netherlands	651	829	2,359	4,547	2,744	12,816
Luxembourg	1,092	1,764	657	654	224	5,607
West Germany	210	403	409	1,083	1,242	4,589
France	152	330	463	1,135	1,257	4,156
Switzerland	91	224	454	397	666	2,495
Spain	86	283	161	501	320	1,887
Belgium	50	70	164	326	367	1,720
Italy	23	59	108	314	217	900
Europe	3,469	6,576	9,116	14,808	14,294	59,265
Indonesia	250	545	586	631	1,105	11,540
Hong Kong	502	1,072	1,662	1,898	1,785	9,850
Singapore	302	494	747	1,902	840	6,555
Thailand	124	250	859	1,276	1,154	4,422
South Korea	436	647	483	606	284	4,138
Malaysia	158	163	387	673	725	3,231
China	226	1,226	296	438	349	2,823
Taiwan	291	367	372	494	445	2,731
Philippines	21	72	134	202	258	1,580
Asia	2,327	4,868	5,569	8,238	7,054	47,519
Panama	2,401	2,305	1,712	2,044	1,342	16,244
Caymans	930	1,197	2,609	1,658	588	7,332
Brazil	270	229	510	349	615	6,560
Bahamas	792	734	737	620	121	3,459
Mexico	226	28	87	36	168	1,874
Bermuda	16	36	337	228	380	1,578
Netherlands Antilles	66	199	172	38	9	795
Peru	---	1	---	---	---	696
Latin America	4,737	4,816	6,428	5,238	3,628	40,483
Australia	881	1,222	2,413	4,256	3,669	16,063
New Zealand	93	121	117	101	231	925
Oceania	992	1,413	2,669	4,618	4,166	18,098
Liberia	289	267	648	643	531	4,832
Africa	309	272	653	671	551	5,826
Kuwait	41	54	20	32	26	1,441
Iran	---	---	1	1	---	1,006
Middle East	44	62	259	66	27	3,431
Total	22,320	33,364	47,022	67,540	56,911	310,808

Source: Ministry of Finance

Table 2: Japan's Foreign Direct Investment by Sector, FY 1986-FY 1990

(in millions of dollars)

	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	Cumulative March 31, 1991
Manufacturing Sector	$3,806	$7,832	$13,805	$16,284	$15,486	$81,613
Food Products	127	328	419	1,300	821	4,085
Textiles	63	206	317	533	796	3,999
Wood and Paper Products	57	317	604	555	314	2,969
Chemicals	355	910	1,292	2,109	2,292	10,940
Metals	328	786	1,367	1,591	1,047	10,308
Nonelectric Machinery	626	687	1,432	1,762	1,454	7,932
Electric Machinery	987	2,421	3,041	4,480	5,684	20,360
Transport Equipment	828	1,473	1,281	2,053	1,872	10,880
Other	435	703	4,051	1,901	1,207	10,138
Nonmanufacturing Sector	17,949	25,080	32,634	50,517	40,620	223,136
Agriculture and Forestry	15	97	162	151	153	1,358
Fisheries	52	44	94	47	61	739
Mining	669	511	1,013	1,262	1,328	16,539
Construction	250	87	309	646	300	2,389
Trade and Sales	1,861	2,269	3,204	5,148	6,156	31,315
Banking, Finance and Insurance	7,240	10,673	13,104	15,395	8,047	65,319
Services	1,560	2,780	3,732	10,616	11,292	34,667
Transportation	1,925	2,145	2,372	2,927	2,169	17,438
Real Estate	3,997	5,428	8,641	14,143	11,107	45,849
Other	379	1,047	3	180	6	7,523
Branch Offices	566	452	584	739	806	5,464
Other Transactions*	---	---	---	---	---	595
Total	22,320	33,364	47,022	67,540	56,911	310,808

*Certain overseas real estate transactions have been excluded from Japan's foreign direct investment data since December 1, 1980 because of changes in the Foreign Exchange and Foreign Trade Control Law.

Source: Ministry of Finance

Table 3: Japan's Foreign Direct Investment by Industry and Region, March 31, 1991

(in millions of dollars)

	North America	Europe	Asia	Latin America	Oceania	Africa	Middle East	Total
Manufacturing Sector	$40,322	$12,540	$18,659	$6,281	$2,302	$231	$1,277	$81,613
Food Products	1,831	520	1,167	267	293	8	0	4,085
Textiles	759	865	1,867	452	12	39	4	3,999
Wood and Paper Products	2,061	20	525	205	157	1	-	2,969
Chemicals	4,824	1,415	2,641	775	131	24	1,130	10,940
Metals	4,183	599	2,804	2,074	455	127	66	10,308
Nonelectric Machinery	3,973	1,794	1,649	424	80	1	11	7,932
Electric Machinery	11,099	4,321	4,175	638	104	8	15	20,360
Transport Equipment	5,030	1,899	1,699	1,284	947	17	4	10,880
Other	6,563	1,108	2,132	161	123	7	46	10,138
Nonmanufacturing Sector	94,291	44,688	28,074	34,132	15,654	5,591	706	223,136
Agriculture and Forestry	448	16	330	223	332	7	2	1,358
Fisheries	186	21	195	152	81	102	1	739
Mining	2,089	1,559	7,357	1,605	2,947	582	401	16,539
Construction	1,176	117	740	223	70	23	40	2,389
Trade and Sales	16,983	6,700	3,792	2,179	1,602	15	44	31,315
Banking, Finance and Insurance	19,393	25,129	4,231	14,651	1,755	37	123	65,319
Services	20,741	3,264	5,703	1,485	2,743	725	5	34,667
Transportation	510	229	1,095	12,201	167	3,233	2	17,438
Real Estate	30,549	6,597	2,991	211	5,432	69	-	45,849
Other	2,215	1,058	1,638	1,203	524	798	87	7,523
Branch Offices	1,086	1,999	750	46	136	1	1,446	5,464
Other Transactions*	485	38	37	23	7	2	2	595
Total	136,185	59,265	47,519	40,483	18,098	5,826	3,431	310,808

*Certain overseas real estate transactions have been excluded from Japan's foreign direct investment data since December 1, 1980.

Source: Ministry of Finance

NOTE

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